

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 /089 W

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R 041722Z FEB 76

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 7016

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E.O. 11652: N/A

TAGS: EFIN, CI

SUBJECT: BALANCE OF PAYMENTS

REF: SANTIAGO 8470

1. SUMMARY. JUST RELEASED CENTRAL BANK (CB) BOP ESTIMATES FOR 1975 SHOW SOMEWHAT LARGER DEFICIT THAN EARLIER PROJECTED (REFTEL), MAINLY DUE TO UPWARD REVISION OF IMPORTS. CB IS PROJECTING LARGER BUT PRESUMABLY MANAGEABLE DEFICIT FOR 1976 ON ASSUMPTION OF LOWER COPPER PRICE THAN EARLIER THOUGHT LIKELY. LESS OPTIMISTIC BUT STILL REALISTIC ASSUMPTIONS WOULD INFLATE EX ANTE BOP DEFICIT TO POSSIBLY UNMANAGEABLE MAGNITUDE. END SUMMARY.

2. IN COLUMNS 1 AND 2 BELOW ARE REPRODUCED THE LATEST CB ESTIMATES OF THE 1975 AND 1976 CHILE BOP. IN COLUMN 3 ARE EMBASSY PROJECTIONS BASED ON LESS OPTIMISTIC ASSUMPTIONS ABOUT THE PRICES OF COPPER AND OF OIL, ABOUT THE VOLUME OF FOOD IMPORTS, AND ABOUT THE SIZE OF CAPITAL INFLOWS:

	1975	1976	1976
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A. EXPORTS FOB	1,533.0	1,826.6	1,721.6
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COPPER	(854.2)	(1,113.0)	(1,008.0)
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OTHER	(678.8)	(713.6)	(713.6)
B. IMPORTS CIF	-1,811.0	-1,832.0	-1,911.0
FOODSTUFFS	(- 361.0)	(- 208/0)	(- 280.0)
PETROLEUM	(- 282.0)	(- 343.0)	(- 350.0)
CAPITAL GOODS	(- 281.0)	(- 348.0)	(- 348.0)
OTHER	(- 887.0)	(-933.0)	(- 933.0)
C. CAPITAL SERVICES (NET)	- 323.5	- 356.0	-356.0
PROFIT REMITTANCES	(- 26.5)	(- 33.0)	(- 33.0)
INTEREST PAYMENTS	(- 297.0)	(- 323.0)	(- 323.0)
D. NON-FINANCIAL SERVICES (NET)	- 50.0	- 50.0	- 50.0
E. TRANSFERS (NET)	10.0	10.0	10.0
F. CURRENT ACCOUNTS BAL.	- 641.5	- 401.4	- 585.4
G. AUTONOMOUS CAPITAL INFLOWS	855.3	648.0	584.2
CAPITAL GOOD CREDITS	(220.0)	(248.0)	(228.0)
FOREIGN EXCHANGE CREDITS	(30.0)	(30.0)	(30.0)
REPATRIATED CAPITAL	(63.0)	(70.0)	(60.0)
OTHER PRIVATE CAPITAL INFLOWS	(129.0)	(81.8)	(70.0)
PL-480	(96.6)	(44.0)	(44.0)
AID (HOUSING GUARANTEE)	(30.0)	(30.0)	(30.0)
CODELCO LOANS	(70.0)	(92.0)	(70.0)
DEBT RENEGOTIATION (BRAZIL,			
FRANCE, SWITZERLAND)	--	(52.2)	(52.2)
OTHER DEBT RENEGOTIATION	(246.7)	--	--
H. DEBT AMORTIZATION	- 497.0	- 491.0	- 491.0
I. CAPITAL ACCOUNT BALANCE	358.3	157.0	93.2
J. ADJUSTMENTS	35.8	27.0	27.0
K. CHANGES IN NET RESERVES	- 247.2	- 217.4	- 465.2

NOTE: SEE SAME IN REFTTEL FOR EXPLANATION OF ENTRIES. EXCEPT FOR CAPITAL GOODS, FOODSTUFFS, AND OIL, CB ESTIMATES ASSUME APPROXIMATELY LIMITED OFFICIAL USE

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SAME IMPORT VOLUME IN 1976 AS FOR 1975. LARGER OIL IMPORTS MADE NECESSARY BY DECLINING DOMESTIC PRODUCTION AND BY 120,000 TON EXPANSION OF COPPER OUTPUT. CB ESTIMATES SUBSTANTIAL INCREASE IN AGRICULTURAL OUTPUT (INCLUDING SEVEN PERCENT LARGER WHEAT CROP) AND FOREIGN INVESTMENT FLOWS, HENCE SMALLER FOOD IMPORT BILL AND EXPANDED FINANCING FOR CAPITAL GOODS' IMPORTS.

3. LATEST ESTIMATE FOR 1975 SHOWS TRADE DEFICIT \$31 MILLION LARGER

THAN EARLIER PROJECTED. ESTIMATES FOR BOTH IMPORTS AND EXPORTS HAVE BEEN RAISED, BUT FORMER MUCH MORE SO THAN LATTER. LARGER TRADE DEFICIT ACCOUNTS FOR MOST OF INCREASE IN REVISED ESTIMATE OF OVERALL DEFICIT.

4. ASSUMPTIONS UNDERLYING CB'S REVISED 1976 BOP PROJECTION DIFFER FROM THOSE IN REFTEL AS FOLLOWS: (1) NEW ESTIMATE ASSUMES AVERAGE LME COPPER PRICE OF 60 CENTS A POUND, VICE 65 CENTS; (2) VOLUME OF FOOD IMPORTS WILL BE SUBSTANTIALLY LOWER THAN EARLIER PROJECTED; (3) CREDITS FOR CAPITAL GOODS (INCLUDING CODELCO LOANS) WILL BE SUBSTANTIALLY LARGER THAN EARLIER PROJECTED; (4) PL-480 ASSISTANCE NOW EXPECTED IN SOMEWHAT SMALLER AMOUNTS. RESULT IS THAT CB SEES INCREASE OF \$42 MILLION IN BOP DEFICIT OVER EARLIER PROJECTION.

5. ASSUMPTIONS IN COLUMN 3 DIFFER FROM THOSE IN COLUMN 2 AS FOLLOWS: (1) LME COPPER PRICE WILL AVERAGE 55 CENTS IN 1976 WHICH, ACCORDING TO CB PROJECTIONS, WOULD LOWER COPPER EXPORT VALUE BY \$105 MILLION (LOWER OUTPUT AT 55 CENTS A POUND), (2) CHILE WILL HAVE TO IMPORT SOMEWHAT MORE FOODGRAINS IN 1976 THAN IN 1975; (3) OIL IMPORT PRICE WILL RISE ANOTHER TEN PERCENT DURING LAST QUARTER OF 1976; (4) FOREIGN FINANCING FOR CAPITAL GOODS IMPORTS WILL RISE ONLY SLIGHTLY DESPITE LARGER FLOW OF FOREIGN INVESTMENT; (5) CHILEANS WILL CONTINUE TO TAP FINANCIAL RESOURCES THEY HOLD ABROAD AT ONLY ABOUT THE SAME RATE AS IN 1975; (6) OTHER SHORT-TERM PRIVATE CAPITAL INFLOWS WILL TAPER OFF VERY STRONGLY IN 1976 WITH WORSENING CHILEAN ECONOMIC SITUATION.

6. OUR REVISED ASSUMPTIONS WOULD INDICATE EX ANTE BOP DEFICIT OF ABOUT \$465 MILLION. AT BEST CHILE CAN PROBABLY FIND FINANCING FOR A \$200-250 MILLION DEFICIT, DIVIDED ABOUT EQUALLY BETWEEN THE IMF AND PRIVATE BANKS. THE REST WOULD HAVE TO BE TAKEN OUT OF IMPORTS, WITH SOCIAL AND ECONOMIC CONSEQUENCES BEYOND THE SCOPE LIMITED OFFICIAL USE

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OF THIS TELEGRAM.

7. OUR ASSUMPTIONS MAY, OF COURSE, BE TOO PESSIMISTIC. THE PRICE OF COPPER MAY RISE AND/OR CHILE'S AGRICULTURAL OUTPUT MAY BE SUBSTANTIALLY HIGHER THAN WE HAVE ASSUMED. THE PROSPECTS FOR NEITHER, HOWEVER, LOOK ESPECIALLY BRIGHT AT THE MOMENT.

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Message Attributes

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